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TO SECSTATE WASHDC IMMEDIATE 3178
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E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC): REVIEW OF JAPAN, JUNE 19

1. SUMMARY: SECRETARIAT PROVIDES A DETAILED DESCRIPTIVE,
AND OCCASIONALLY SUGGESTIVE, ACCOUNT OF RECENT TRENDS IN
JAPANESE ECONOMIC ACTIVITY AND POLICY, WITH RELATIVELY
MINOR ATTEMPT AT ORIGINAL ANALYSIS. ALTHOUGH DRAFT
SURVEY SUGGESTS THAT SOME OPTIMISM MAY BE APPROPRIATE ON
JFY 78 GROWTH TARGET, SECRETARIAT FEELS 7 PERCENT GROWTH
TARGET WOULD NOT BE MET WITHOUT FURTHER POLICY STIMULUS.
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SECRETARIAT SEES LITTLE UNDERLYING STRENGTH IN CONSUMP-
TION SECTOR, AND CONTINUED WEAKNESS IN PRIVATE INVESTMENT
UNTIL CAPACITY UTILIZATION RATES PICK UP. SECRETARIAT'S
BALANCE OF PAYMENTS \$18 BILLION SURPLUS FORECAST FOR 1978
(\$13 BILLION AT ANNUAL RATE FOR 1979 FIRST HALF) FAR
EXCEEDS GOJ FORECASTS; SECRETARIAT SEES LITTLE PROSPECTS
OF SIGNIFICANT BOP ADJUSTMENT IN SHORT TERM AND THUS

SUGGESTS MAJOR ROLE FOR CAPITAL EXPORTS. IN LONGER TERM, REMOVAL OF IMPEDIMENTS TO IMPORT EXPANSION SEEMS TO SECRETARIAT MORE LIKELY MEANS OF ADJUSTMENT THAN EXPORT SLOW-DOWN AND MORE DESIRABLE THAN ADMINISTRATIVE CONTROLS ON EXPORTS. USOECD APPRECIATES WASHINGTON AGENCY SUGGESTIONS FOR EDRC REVIEW CONTAINED IN STATE 95449 AND REQUESTS FURTHER REACTIONS TO SUMMARY OF SECRETARIAT DRAFT AS WELL AS ANY FURTHER COMMENTS DELEGATION COULD USE IN COURSE OF EXAMINATION. END SUMMARY

2. RECENT TRENDS: SECRETARIAT DESCRIBES SAWTOOTH PATTERN IN RECENT JAPANESE ECONOMIC ACTIVITY AS FISCAL STIMULUS AND EXPORT GROWTH CAME TOGETHER TWICE (77I, 78I) TO CREATE GROWTH SPURT WHICH QUICKLY PETERED OUT IN FIRST CASE. SECRETARIAT FEELS CURRENT UPSWING WILL DO LIKEWISE AS IT SEES NO BASIS FOR SPONTANEOUS RECOVERY IN UNDERLYING PRIVATE SECTOR COMPONENTS. SINCE RECESSION TROUGH, PRIVATE NON-RESIDENTIAL INVESTMENT HAS BEEN PARTICULARLY WEAK, RESIDENTIAL CONSTRUCTION WEAKENED IN 1977 AND PRIVATE CONSUMPTION HAS GROWN ONLY MODERATELY AS INCREASED SAVINGS RATE HAS ABSORBED SUBSTANTIAL PORTION OF TAX CUTS. WEAKNESS OF FINAL DOMESTIC DEMAND HAS BEEN UNIQUE CHARACTERISTIC OF THIS RECOVERY COMPARED TO PREVIOUS (E.G., 71-73, 65-68, 62-64). SECRETARIAT NOW EXPECTS SOME RECOVERY OF PRIVATE CONSUMPTION AND HOUSING, BUT SUGGESTS CAPACITY UTILIZATION WILL HAVE TO INCREASE LIMITED OFFICIAL USE

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SIGNIFICANTLY BEFORE NON-RESIDENTIAL INVESTMENT WILL PICK UP. STRONG SECTORS SINCE TROUGH HAVE BEEN PUBLIC INVESTMENT AND EXTERNAL DEMAND. EXCESSIVE STOCKS AT BEGINNING OF RECOVERY HELD INDUSTRIAL PRODUCTION (AND CONSEQUENTLY IMPORTS) BELOW EARLIER LEVELS (PRE-RECESSION PEAK JANUARY 1974 WAS NOT REATTAINED UNTIL MARCH 1978), BUT MORE NORMAL STOCK LEVELS ARE NOW RETURNING.

3. PRODUCTION HAS DIVERGED WIDELY BY BRANCH OF MANUFACTURING, WITH STRONGEST TRENDS IN THOSE AREAS SUPPORTED BY EXPORTS (AUTOMOBILES, MOTORCYCLES, WATCHES, ETC.). ACTIVITY DECLINED DURING 1977 IN INDUSTRIAL MACHINERY AND "STRUCTURALLY DEPRESSED SECTORS" (TEXTILES, SHIPBUILDING, IRON AND STEEL, PLASTICS AND WOOD PRODUCTS). CAPACITY UTILIZATION (AS MEASURED BY OPERATING RATES) IS THOUGHT TO BE BELOW 80 PERCENT, BUT ITS ECONOMIC SIGNIFICANCE IS QUESTIONABLE DUE TO NEED TO SCRAP SUBSTANTIAL CAPACITY IN DEPRESSED SECTORS AS WELL AS TO STATISTICAL PROBLEMS. EMPLOYMENT HAS REFLECTED WEAK PRODUCTION TRENDS, PARTICULARLY IN MANUFACTURING, AS EMPLOYMENT AND OVERTIME INDICES FELL FOR 1977 AS A WHOLE; UNEMPLOY-

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MENT INCREASED 10.7 PERCENT, I.E., TO 2.1 PERCENT OF
LABOR FORCE. SECRETARIAT, IN THIS REGARD, DRAWS ATTEN-
TION TO LONG WORK DAY AND WEEK AND SHORT VACATION TIME
(TAKEN) IN JAPAN.

4. CONSUMER PRICE RISES (3.9 PERCENT YEAR/YEAR TO APRIL
1978) IN JAPAN ARE AMONG LOWEST IN OECD AND HAVE DECEL-
ERATED SHARPLY DUE TO ABSOLUTE FALL IN IMPORT PRICES
(THUS IN WHOLESALE PRICE INDEX) AS YEN APPRECIATED AND
COMMODITY MARKETS WERE STABLE. RISE IN NOMINAL WAGES
HAS SLOWED DOWN IN PARALLEL WITH 1978 WAGE NEGOTIATIONS
YIELDING ABOUT 6 PERCENT INCREASE; YET REAL WAGES ARE
RISING AGAIN AFTER A SLOWDOWN IN 1977. PROFITS REMAIN
DEPRESSED (2.8 PERCENT ON SALES IN 1977 VS. 6.0 IN PEAK
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PRE-RECESSION QUARTER, OR APPROXIMATELY 60 PERCENT OF NORMAL LEVELS) -- BEING AFFECTED BY DOWNWARD PRESSURE ON PRICES (DUE NEED FOR INVENTORY ADJUSTMENT) AND RISING FIXED (INCLUDING LABOR) COSTS. HIGH BANKRUPTCY RATES HAVE MODERATED RECENTLY AS DEMAND HAS BEEN PICKING UP AND MONETARY CONDITIONS EASED, ALTHOUGH BANKS HAVE BEEN UNUSUALLY CAUTIOUS AND SELECTIVE IN THEIR LENDING ATTITUDE.

5. SECRETARIAT PROVIDES DETAILED ACCOUNT OF 1977 BALANCE OF PAYMENTS DEVELOPMENTS (FOR TRADE, INVISIBLES, CAPITAL ACCOUNT), WHICH HIGHLIGHTS STANDARD EXPLANATIONS FOR LARGE CURRENT SURPLUS, PARTICULARLY SHARP DOLLAR VALUE RISE IN EXPORTS (ALTHOUGH VOLUME RISE WAS NOT STRONG, AROUND 3 PERCENT USING MIN FIN QUANTUM INDEX OR 4 PERCENT LOSS OF MARKET SHARES) AND SLUGGISH IMPORT VOLUME (INCOME ELASTICITY LESS THAN ONE). WHILE SECRETARIAT CITES "SPECIAL FACTORS," PARTICULARLY J-CURVE EFFECT AND ANTICIPATORY BEHAVIOR (DUE EXPECTED EXPORT RESTRAINTS, OR DOCK STRIKES, OR FURTHER YEN APPRECIATION), IT IS NOT CONVINCED THAT UNDERLYING TRADE TRENDS WOULD SHOW MUCH DIFFERENT PICTURE. INVISIBLES DEFICIT HAS BEEN RELATIVELY STEADY (AT ABOUT 6 BILLION) ALTHOUGH COMPOSITION HAS CHANGED AS INVESTMENT INCOME HAS SHIFTED DEFICIT TO SURPLUS. 1977 ACTIVITY IN CAPITAL ACCOUNT TENDED TO LARGER DEFICIT (ALTHOUGH HISTORICALLY LOW), BUT 1978 FIRST QUARTER SHOWED SMALL SURPLUS. SHORT-TERM CAPITAL FLOWS (PARTICULARLY 77 II AND EARLY 78) WERE HEAVILY INFLUENCED BY MONETARY FACTORS AND BOJ INTERVENTION, ALTHOUGH RELATIVE MAGNITUDE NOT AS GREAT AS IN 1971. FIRST QUARTER 1978 STATISTICS ARE PRESENTED ON ANNUAL BASIS AND THUS SHOW FRIGHTENING TREND OF TRADE AND CURRENT SURPLUS (\$30 BILLION, \$21 BILLION RESPECTIVELY). LIMITED OFFICIAL USE

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TIVELY).

6. SECRETARIAT ALSO ANALYZES LONGER-TERM DEVELOPMENTS IN JAPANESE BALANCE OF PAYMENTS SINCE LATE 50'S, HIGH-LIGHTING PERSISTENT, ALTHOUGH FLUCTUATING, TRADE SURPLUS AS INDUSTRIAL PRODUCTION QUICKLY ADAPTED TO CHANGING TRADE PATTERNS WITH PROGRESSION OF EXPORTS FROM LABOR-INTENSIVE LIGHT INDUSTRY (E.G., TEXTILES) TO CAPITAL-INTENSIVE HEAVY INDUSTRY (STEEL, CHEMICALS) TO TECHNOLOGY-INTENSIVE PRODUCTS (E.G., AUTOMOBILES) MOST RECENTLY. EXPORT GROWTH IN DOLLAR TERMS HAS BEEN OVER 20 PERCENT ANNUALLY FOR VIRTUALLY THE ENTIRE 20-YEAR PERIOD, WHILE VOLUME GROWTH HAS SLOWED FROM OVER 20 PERCENT IN EARLY

SIXTIES TO AROUND 10 PERCENT IN PERIOD 1970-1975. EXPORTS HAVE BEEN HIGHLY FOREIGN-INCOME ELASTIC, I.E., GAINING MARKET SHARES (ELASTICITY 1.9 WITH SLIGHT FALL IN MORE RECENT PERIOD), BUT MUCH LESS PRICE ELASTIC (1.1 ALSO FALLING OFF RECENTLY). IMPORTS CLOSELY LINKED TO DOMESTIC ACTIVITY (ELASTICITY ABOUT UNITY) OVER LONG RUN, AS WOULD BE EXPECTED GIVEN HIGH RAW MATERIALS (INDUSTRIAL IMPORTS) COMPONENT, WHILE PRICE EFFECT HAS BEEN TRADITIONALLY SMALL (ELASTICITY 0.3). SECULAR TREND OF INVISIBLES BALANCE HAS BEEN RELATIVELY STEADY, BUT WITH A TENDENCY TO LARGER DEFICIT; CAPITAL ACCOUNT HAS REMAINED IN DEFICIT SINCE MID-SIXTIES, BUT SIZE OF DEFICIT DOES NOT SEEM FULLY TO REFLECT GOJ MEASURES TO LIBERALIZE CAPITAL FLOWS. SECRETARIAT MAKES SEVERAL TENTATIVE OBSERVATIONS BASED ON ITS ANALYSIS: (A) HIGH ELASTICITY OF JAPANESE EXPORTS TO WORLD TRADE UNLIKELY

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TO FALL SUBSTANTIALLY DESPITE SUBSTANTIAL YEN APPRECIATION; (B) PICK UP IN MANUFACTURED IMPORTS MAY BE PAR-

TIALLY OFFSET BY SLOWER INTERMEDIATE GOODS IMPORTS IF GROWTH CONTINUES ON LOWER PATH; (C) GIVEN PRODUCT/GEOGRAPHIC COMPOSITION OF TRADE, REGIONAL SURPLUSES ESPECIALLY WITH U.S. AND EEC MAY REMAIN LARGE OVER MEDIUM TERM; AND, (D) THERE IS SUBSTANTIAL SCOPE FOR CAPITAL OUTFLOWS TO OFFSET CURRENT SURPLUS.

7. ECONOMIC POLICY: SECRETARIAT PROVIDES DETAILED CHRONOLOGY OF MONETARY AND FISCAL POLICY MEASURES WHICH CONVEY GENERAL SHIFT OF THRUST FROM CAUTION IN CY 1976 TO EASY MONEY AND STIMULATIVE FISCAL STANCE IN CY 1977 AND INTO 1978. THE OFFICIAL DISCOUNT RATE WAS BROUGHT LIMITED OFFICIAL USE

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DOWN IN VARIOUS STEPS BY 3 PERCENTAGE POINTS WHICH, COUPLED WITH A DECLINE IN DEPOSIT RATES AND A REDUCTION IN BANKS' COMPULSORY RESERVE REQUIREMENTS RESULTED IN A SIGNIFICANT AND GRADUAL REDUCTION IN SHORT AND LONG-TERM LENDING RATES; AND ALTHOUGH THE ANNOUNCED WINDOW GUIDANCE CEILINGS ON DOMESTIC CREDIT EXPANSION IMPLIED ONLY A MODERATE INCREASE IN BANK LENDING, THE RELATIVELY WEAK TREND OF PRIVATE CREDIT DEMAND LED TO AMPLE CREDIT. THE INITIAL JFY 1977 BUDGET INCORPORATED A MARKED INCREASE IN PUBLIC EXPENDITURE, WHICH GIVEN THE FRONT-LOADED IMPLEMENTATION OF PUBLIC WORKS IN THE FIRST HALF OF THE FISCAL YEAR (APRIL - SEPTEMBER) EXERTED A SIGNIFICANTLY EXPANSIONARY IMPACT ON THE ECONOMY DURING THE PERIOD. AND, ALTHOUGH THE DEMAND IMPACT OF FISCAL POLICY SUBSIDED CONSIDERABLY IN LATE CY 1977, PUBLIC EXPENDITURE IMPARTED NEW THRUST TO ACTIVITY IN EARLY 1978, FOLLOWING THE INTRODUCTION OF TWO SUPPLEMENTARY BUDGETS IN THE SECOND HALF OF THE FISCAL YEAR. THE BUDGET FOR JFY 1978 ALSO PROVIDES FOR A FURTHER SIGNIFICANT EXPANSION IN PUBLIC WORKS AS WELL AS VARIOUS MEASURES TO STIMULATE PRIVATE DEMAND. SECRETARIAT ALSO RECOGNIZES SCOPE FOR HIGHER TAX BURDEN IN JAPAN IF COMBINED WITH RAPIDLY RISING WELFARE EXPENDITURE AND CONCOMITANT FALL IN HOUSEHOLD'S SAVINGS RATE. SECRETARIAT ALSO REVIEWS SPECIAL BOP POLICIES, INCLUDING "ADMINISTRATIVE SURVEILLANCE OF EXPORTS," TO ADDRESS SIZE OF SURPLUS WHILE ADJUSTMENT PROCESS WORKS ITSELF OUT.

8. SHORT-TERM OUTLOOK: SECRETARIAT ACKNOWLEDGES STRONG FIRST QUARTER 1978 (REAL GNP UP 10 PERCENT, INDUSTRIAL PRODUCTION 11), BUT FEELS FISCAL STIMULUS WILL TAPER OFF LEAVING CY 78 YEAR/YEAR GROWTH NEARER 5-1/2 PERCENT THAN 6-1/2 GOJ TARGET. (NOTE: SECRETARIAT BASING ITS LIMITED OFFICIAL USE

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FORECAST ON ANNOUNCED FISCAL STANCE PLUS CONTINUED EASY MONETARY POLICY AND MAKES NO ALLOWANCE FOR FURTHER SUPPLEMENTARY BUDGET OR ADDITIONS TO FISCAL INVESTMENT AND LOAN PROGRAM /F.I.L.P./ EXPENDITURES.) PRIVATE CONSUMPTION FORECAST TO FOLLOW SAME PATTERN, AS REAL DISPOSABLE INCOME INCREASES SLIGHTLY FASTER THAN IN 1977 -- DESPITE LOWER NOMINAL WAGE INCREASES AND marginally HIGHER TAX BURDEN -- RESULTING IN YEAR/YEAR 4-1/2 PERCENT CONSUMPTION INCREASE, SLOWING DOWN IN 78 II WHEN PRICES PROJECTED TO REACCELERATE SLIGHTLY. BUSINESS FIXED INVESTMENT SHOULD REMAIN WEAK ESPECIALLY IN MANUFACTURING, BUT TRENDS INTO 1979 COULD SHOW IMPROVEMENT AS CAPACITY UTILIZATION RATES RISE. HOUSING, SUPPORTED BY FAVORABLE MORTGAGE TERMS AND AVAILABILITY PLUS FILP PROGRAMS, SHOULD RECOVER FROM THE STAGNATION OF 1977. PUBLIC INVESTMENT, PARTICULARLY CONSTRUCTION, IS EXPECTED TO BE A SOURCE OF STRENGTH THROUGHOUT THE YEAR. STOCK-BUILDING IS PUT IN AT A SMALL POSITIVE. EXPORTS ARE FORECAST TO DECELERATE THROUGH THE YEAR DUE TO EXISTING EXPORT RESTRAINTS AND SOME EFFECTS OF YEN APPRECIATION, ALTHOUGH LATTER MAY BE ABSORBED QUICKLY BY INDUSTRIES IN STRONG COMPETITIVE POSITION -- ON BALANCE, 3.5 PERCENT VOLUME GROWTH. IMPORTS ARE FORECAST TO STRENGTHEN TO 10 PERCENT VOLUME GROWTH IN 78 II, BUT YEAR/YEAR WOULD BE ONLY 4 PERCENT GIVEN NEGATIVE 77 CARRYOVER. ASSUMING MAINTENANCE OF EXCHANGE RATE PREVAILING THIRD WEEK OF MAY AND SOME IMPROVEMENT IN TERMS OF TRADE, TRADE SURPLUS OR CY 1978, TAKING ACCOUNT OF EVENTUAL IMPACT OF SPECIAL BOP MEASURES ANNOUNCED, BUT NOT YET IMPLEMENTED.

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SECRETARIAT FORESEES CURRENT ACCOUNT SURPLUS OF \$13 BILLION AT ANNUAL RATE IN 79 I. EMPLOYMENT IS FORECAST TO INCREASE ONE PERCENT WITH SUBSEQUENT SMALL REDUCTION IN UNEMPLOYMENT. CONSUMER PRICES ARE FORECAST TO INCREASE 5-1/2 PERCENT (VS. 7-1/2 PERCENT IN 78) WITH SOME ACCELERATION LATE 78.

9. CONCLUSIONS: ON THE BASIS OF ITS ANALYSIS, SECRETARIAT CONCLUDES THAT IN SPRING OF 1978 THERE ARE GROUNDS FOR REASONABLE OPTIMISM THAT THE RECOVERY ACT IN JAPAN CAN BE PROLONGED: (A) RECENT PARTICULARLY DIFFICULT PERIOD FOR POLICY FORMULATION, INCLUDING INFLATION FEARS, SELF-IMPOSED "30 PERCENT RULE" FOR BUDGET DEFICITS, "ABRUPT VARIATIONS IN THE EXCHANGE RATE," AND LIMITED OFFICIAL USE

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THE GENERAL PROBLEMS OF STRUCTURAL ADJUSTMENT SEEM TO HAVE SUBSIDED SOMEWHAT AND, IN ADDITION, THE GOJ HAS ADOPTED A STRONGER DEGREE OF COMMITMENT TO ITS GROWTH TARGET. NEVERTHELESS, ACHIEVEMENT OF DOMESTIC AND EXTERNAL OFFICIAL OBJECTIVES WOULD SEEM EXTREMELY DIFFICULT IN THE SHORT TERM, BUT SECRETARIAT FEELS ACTIVE POLICIES IN THE LONGER RUN COULD PRODUCE THE NECESSARY RESULTS. BUSINESS INVESTMENT SEEMS UNLIKELY TO RECOVER UNTIL CAPACITY UTILIZATION RATES INCREASE, ALTHOUGH SPECIAL PROGRAMS COULD FACILITATE THE RESTRUCTURING OF INDUSTRY AND THE REDEPLOYMENT OF LABOR AWAY FROM SECTORS FACED WITH STRUCTURAL PROBLEMS. PRIVATE CONSUMPTION IS A BIG QUESTION MARK, ALTHOUGH UNDERLYING TRENDS TOWARD LARGER SHARE OF CONSUMPTION IN GNP AND FEWER ANNUAL WORKING HOURS (I.E., MORE LEISURE) MAY BE SEEN AS COMPLEMENTARY AND SELF-REINFORCING IN THE MEDIUM TERM. THE PRESENT EXCESS OF SAVING OVER INVESTMENT IN THE DOMESTIC ECONOMY WOULD SEEM, HOWEVER, TO INDICATE THE NEED FOR A LARGE PUBLIC SECTOR DEFICIT FOR SOME TIME; (B) ON THE EXTERNAL ACCOUNT, SECRETARIAT STATES THAT THE JAPANESE

CURRENT SURPLUS IS AN IMPORTANT ELEMENT OF THE SERIOUS DISTORTIONS THAT CHARACTERIZE THE WORLD TRADE AND MONE- TARY SCENE, BUT GOES ON TO SAY THAT NO SUBSTANTIAL REDUC- TION IN THE CURRENT SURPLUS CAN BE EXPECTED IN THE NEAR FUTURE. THE SECRETARIAT IS NOT SANGUINE ABOUT THE POS- SIBILITY OF PRICE EFFECTS CUTTING INTO THE SURPLUS, BUT RATHER ALLOWS THAT JAPANESE GOVERNMENT SHOULD UNDER- TAKE A REAL COMMITMENT TO EXPAND JAPANESE IMPORTS BY REMOVING EXISTING IMPEDIMENTS WHETHER THEY BE LEGAL, ADMINISTRATIVE, TRADITION, OR DE FACTO. SECRETARIAT ARGUES THAT EXPANSION OF JAPAN'S IMPORTS (AND IMPORT PROPENSITY) IS MUCH TO BE DESIRED OVER ARTIFICIAL RES- TRICTION OF ITS EXPORTS; (C) ON EXCHANGE RATE BEHAVIOR, LIMITED OFFICIAL USE

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SECRETARIAT STATES THAT, "THE ABRUPT AND SHARP APPRECI- ATION OF THE YEN IN THE PERIOD UNDER REVIEW WAS ONE OF SEVERAL DISORDERLY DEVELOPMENTS WORLDWIDE WHICH, BY COMMON CONSENT, SHOULD BE PREVENTED IN THE FUTURE BY MEANS OF CLOSER INTERNATIONAL COOPERATION. ON THE OTHER HAND, A SMOOTHER ADJUSTMENT OF THE YEN EXCHANGE RATE TO UNDERLYING MARKET FORCES, STARTING AT AN EARLIER DATE, WOULD PROBABLY HAVE BEEN PREFERABLE."; (D) AS LONG AS CURRENT SURPLUS REMAINS HIGH, IT WOULD BE NORMAL FOR JAPAN TO MATCH IT WITH LONG-TERM CAPITAL EXPORTS, PAR- TICULARLY TO THE DEVELOPING COUNTRIES.

10. MISSION COMMENT: DUE TO PRESS OF MINISTERIAL PREPA- RATIONS AND TARDY CIRCULATION OF SECRETARIAT DRAFT SURVEY, MISSION IS NOT IN A POSITION TO PROVIDE DETAILED COMMEN- TARY ON DRAFT. WE WOULD OBVIOUSLY PLAN TO QUESTION JAPANESE ON ATTAINMENT OF GROWTH TARGET FOR JFY 1978 AND ON POSSIBILITIES FOR REDUCING CURRENT ACCOUNT SURPLUS TO LEVELS BELOW PROJECTED. AND, WE WILL CAREFULLY REVIEW RECENT TRAFFIC ON JAPANESE ECONOMY TO GLEAN TOPICS FOR POSSIBLE QUESTIONS TO JAPANESE DEL AND SECRETARIAT. WE NOTE, FOR INSTANCE, THAT SEVERAL OF THE TOPICS RAISED STATE 95449 ARE NOT FULLY ADDRESSED BY SECRETARIAT DRAFT. GIVEN IMPORTANCE OF EDRC EXAMINATION OF JAPAN, WE WOULD APPRECIATE COMMENTS FROM WASHINGTON AGENCIES AND EMBASSY TOKYO WHICH FOCUS ON KEY ISSUES OF INTEREST TO USG. SALZMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS18851
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780247-0309
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780665/aaaacdyl.tel
Line Count: 486
Litigation Code IDs:
Litigation Codes:
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Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6852498a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2373061
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC): REVIEW OF JAPAN, JUNE 19
TAGS: ECON, OECD
To: STATE TOKYO
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6852498a-c288-dd11-92da-001cc4696bcc
Review Markings:
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20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014